STATE OF WISCONSIN
DEPARTMENT OF EMPLOYEE TRUST FUNDS
801 West Badger Road
Madison, WI 53702

CORRESPONDENCE MEMORANDUM

DATE: April 17, 2002

TO: Deferred Compensation Board Members

FROM: Mary Willett, Director
Supplemental Retirement Plans

SUBJECT: Status of EGTRRA Implementation

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) made significant changes in the federal tax laws that govern the Wisconsin Deferred Compensation Program (WDC). The Deferred Compensation Board approved amendments to the Wisconsin Plan and Trust Document last November to allow WDC participants to take advantage of the new flexibility that EGTRRA provided. However, in January the Board was notified that implementation had to be delayed because Wisconsin income tax laws do not yet recognize the 2001 Internal Revenue Code (IRC), which includes the EGTRRA provisions. An amendment to update Wisconsin statutes to conform to the 2001 IRC is included in the budget reconciliation bill.

The effective date of the amendments to WDC Plan and Trust Document continues to be on hold in consideration of the state income tax issue. If conforming legislation is passed, staff proposes to make the amended plan document effective as of the date this is enacted. If the IRC Section 457 EGTRRA provisions are not recognized in state income tax laws before the end of the year, substitute amendments will need to be adopted in the current plan document to address the changes mandated for federal income tax purposes. In consideration of this possibility, staff recommends that authority be delegated to the Board Chair to sign an amended Plan and Trust Document to conform to the mandated IRC requirements.

The table below identifies the mandatory provisions and how they are administered in the WDC.

Provision	WDC Implementation
Roll-outs from the WDC - Participants must be allowed to roll eligible WDC distributions into an IRA or other eligible retirement account. Eligible rollover distributions are lump sum payments or periodic payments that will pay out the entire balance in less than ten years.	Participants who elect to roll distributions from their WDC account must sign a waiver acknowledging that their distribution may be subject to state income tax if conforming legislation does not pass.
Federal tax withholding - Distributions that are eligible for rollover must be assessed a mandatory 20% federal tax withholding, unless the participant elects a direct transfer of the balance into an eligible rollover account.	Changes to the federal tax withholding on current distributions have been made to comply with the mandatory 20% withholding.
Federal tax reporting - Section 457 plans must use federal form 1099R instead of a W2 for reporting distributions.	Tax reporting forms for 2002 are not prepared until January 2003.
Minimum distribution requirements – As a result of the EGTRRA changes, the WDC is now required to comply with Section 401(a)(9) minimum distribution requirements that regulate qualified retirement plans [e.g., Section 401(a), 401(k), 403(b), etc.]	Changes to requirements for distributions to participants and their beneficiaries have been made to conform to the proposed regulations under Section 401(a)(9).